

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LAGOS 05825 01 OF 02 161457Z  
ACTION AF-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11  
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 /091 W  
-----113286 161501Z /41/43

R 101434Z MAY 78  
FM AMEMBASSY LAGOS  
TO SECSTATE WASHDC 8370  
INFO AMCONSUL IBADAN  
AMCONSUL KADUNA

LIMITED OFFICIAL USE SECTION 01 OF 02 LAGOS 5825

C O R R E C T E D C O P Y (TEXT)

E.O. 11652: N/A  
TAGS: ECON, EFIN, ELAB, NI  
SUBJECT: EFFECT OF INFLATION IN NIGERIA

REF: LAGOS 5066

1. EMBASSY HAS REPORTED THAT SKYROCKETING PRICE AND SCHOOL FEES INCREASES COUPLED WITH CONTINUED WAGE CONTROLS WERE MAJOR CAUSE OF RECENT CIVIL DISTURBANCES. FOLLOWING ANALYSIS OF POST-UDOGI WAGE AND PRICE MOVEMENTS TOGETHER WITH SHORT TERM WAGE AND PRICE FORECAST DESCRIBES ECONOMIC CLIMATE AFFECTING CURRENT POLITICAL SITUATION AND FUTURE MANUEVERING PRECEDING CHANGEVER TO CIVILIAN GOVERNMENT.

2. POST-UDOGI WAGE MOVEMENTS: FOLLOWING THE DISASTEROUS UDOGI EXPERIMENT DURING WHICH INFLATION JUMPED INTO AND STAYED IN DOUBLE DIGITS, THE FMG IN 1975 DECREED A THEORETICALLY RESTRICTIVE WAGE POLICY WHICH STILL IS LARGELY IN FORCE. NIGERIANS EARNING LESS THAN NAIRA3000 A YEAR COULD HOPE FOR NO MORE THAN 7 TO 10  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LAGOS 05825 01 OF 02 161457Z

PERCENT ANNUAL WAGE INCREASE. ANNUAL SALARIES OVER NAIRA3000 WERE FROZEN. IN FACT HOWEVER, THE INCREASES HAVE BEEN MUCH GREATER "ANNUAL INCREMENTS" (ANALOGOUS TO USG STEP INCREASES) AMOUNTING TO 3 TO 4 PERCENT OF ANNUAL SALARY WERE NOT RESTRICTED. INCREASES IN OTHER ALLOWANCES, E.G. HOUSING AND TRANSPORTATION, WORTH PERHAPS ANOTHER 3 TO 5 PERCENT OF ANNUAL SALARY ALSO WERE ALLOWED. PROMOTIONS TO HIGHER

SALARIED POSITIONS WERE ALSO PERMITTED. THUS LOWER TO LOWER-MIDDLE CLASS WAGE EARNERS COULD REASONABLY EXPECT 10 TP 20 PERCENT ANNUAL INCREASES IN COMPENSATION DESPITE THE WAGE RESTRICTIONS. ALTHOUGH MIDDLE TO UPPER-MIDDLE CLASS SALARY LEVELS WERE TECHNICALLY FROZEN, INCREASES IN REAL INCOME WERE IN FACT HIGHER THAN THAT FOR LOWER SALARIES. GENUINE OR SPURIOUS PROMOTIONS, LIBERAL USE OF COMPANY/GOVERNMENT VEHICLES FOR PRIVATE USE, GENERAOUS HOUSING ALLOWANCES, BLATANT DEFIANCE OF FMG WAGE POLICY AND OMNIPRESENT BRIBERY HAVE BEEN COMMON. IT IS DIFFICULT TO PUT A VALUE ON THESE "BENEFITS" SINCE SOME ARE ILLEGAL AND PRACTICES VARY AMONG FIRMS, BUT WE ESTIMATE MIDDLE CLASS INCOMES HAVE BEEN INCREASING FROM 15 TO 25 PERCENT ANNUALLY. EFFECT OF GOVERNMENT WAGE POLICIES ON UPPER-CLASSINCOME EARNERS HAS BEEN NIL BECAUSE OF LARGE SCALE GAINS FROM PROFITEERING, BRIBERY, ETC.

3. POST-UDJOI INFLATION: ALTHOUGH INCOMES WERE RISING SIGNIFICANTLY ACROSS THE BOARD THROUGHOUT THE POST-UDJOI PERIOD, INFLATION WAS INCREASING MORE RAPIDLY. THE FMG ITSELF PUTS THE AVERAGE ANNUAL INFLATION RATE FOR THE 1974-77 PERIOD AT ABOUT 26 PERCENT. HOWEVER, MOST OBSERVERS BELIEVE THAT A 30 TO 40 PERCENT INFLATION RATE IS MORE ACCURATE.

4. NET IMPACT OF INFLATION IN 1975-1977 PERIOD: ASSUM-  
ING A 35 PERCENT INFLATION RATE FOR THE THREE YEAR POST-  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LAGOS 05825 01 OF 02 161457Z

UDJOI PERIOD, IT IS CLEAR THAT LOWER AND MIDDLE-CLASS INCOME EARNERS LOST GROUND. LOWER CLASSINCOMES LOST 15 TO 25 PERCENT OF THEIR PURCHASING POWER A YEAR DESPITE 10JTO 20 PERCENT NOMINAL INCREASES IN INCOME. THE TINFLATIONARY IMPACT ON MIDDLE CLASS INCOMES WAS LESS. THANKS TO 15 TO 25 ANNUA INCREASES IN NOMINAL INCOME, INFLATION ERODED PURCHASING POWER BY 10 TP 20 PERCENT.

5. INCOMES AND INFLATION IN 1978: NOMINAL INCOMES IN 1978 HAVE CONTINUED TO GROW AT ABOUT THE SAME PACE AS THE REST OF THE POST-UDJOI PERIOD, BUT INFLATION HAS RISEN PERHAPS TO THE 50 PERCENT LEVEL AND PROBABLY WILL CONTINUE AT THIS RATE FOR THE REST OF THE YEAR. THE INCREASE OF INFLATION IN THE PERIOD PRECEEDING APRIL 1 WAS CAUSED BY A FALSE RUMOR OF A GOVERNMENT PAY INCREASE WHICH TRADITIONALLY IS FOLLOWED BY SIMILAR PAY INCREASES IN THE PRIVATE SECTOR AND PRICE INCREASES CORRECTLY ANTICIPATING THE INCREASED TARIFFS, IMPORT BANS AND PRICE DECONTROLS ANNOUNCED IN THE MARCH 31 AND APRIL 1 BUDGET SPEECHES. PRICE INCREASES HAVE CONTINUED AFTER 1 BECAUSE OF THE NEW BUDGETARY MEASURES. ALTHOUGH THE CURRENT HYPER-INFLATION PUTS THE LOW INCOME EARNER STILL DEEPER IN THE HOLE, IT IS PROBABLY HAVING A GREATER

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LAGOS 05825 02 OF 02 101628Z  
ACTION AF-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11  
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 /091 W  
-----061318 101645Z /43

R 101434Z MAY 78  
FM AMEMBASSY LAGOS  
TO SECSTATE WASHDC 8371  
INFO AMCONSUL IBADAN  
AMCONSUL KADUNA

LIMITED OFFICIAL USE SECTION 02 OF 02 LAGOS 5825

PSYCHOLOGICAL IMPACT ON THE MIDDLE CLASS WHO BELIEVE  
THAT THEY CAN NO LONGER MAINTAIN THEIR HARD WON  
STANDARD OF LIVING. THIS BELIEF IS EXACERBATED BY  
INCREASED EDUCATIONAL FEES WHOSE IMPACT IS FELT MORE BY  
THE MIDDLE CLASS BECAUSE OF THE UPWARD MOBILITY OF THEIR CHILDREN  
AND THE PROBABLE SCARCITY IN THE NEAR FUTURE OF MIDDLE CLASS  
CONSUMER GOODS, ESPECIALLY MEAT, BECAUSE OF THE NEW IMPORT  
PROHIBITIONS AND THE GENERAL ECONOMIC SLOWDOWN. ALTHOUGH FMG  
HAS PROMISED INCREASES IN NON-WAGE COMPENSATION, E.G. BETTER  
HEALTH AND TRANSPORTATION BENEFITS THROUGH VARIOUS  
GOVERNMENT-RUN PROGRAMS, THE NIGERIAN PUBLIC IS UNIMPRESSED  
BECAUSE CURRENT FMG NON-WAGE BENEFITS FOR HIS CIVIL  
SERVANTS ARE MARKEDLY DIFFERENT TO EXISTING PROGRAMS

OFFERED IN PRIVATE SECTOR.

6. WHAT CAN THE FMG DO: IN TRYING TO RESTRUCTURE AND  
COOL OFF THE UNBALANCED NIGERIAN ECONOMY, FMG IS PART  
RESPONSIBLE FOR THE CURRENT SURGE OF INFLATION AND ECONOMIC  
RECESSION. IF FMG REMAINS RESOLVED TO DEFLATE ECONOMY,  
HYPER-INFLATION WILL BE SHORT-LIVED WITH THE INFLATION RATE  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LAGOS 05825 02 OF 02 101628Z

DROPPING BELOW 1975-77 LEVELS LATE THIS YEAR OR EARLY 1979.  
IF POLITICAL PRESSURE TO RELATE THE ECONOMY BECOME GREAT  
ENOUGH, FMG DOES HAVE A FEW CARDS TO PLAY. SOME WOULD HAVE  
LITTLE IMPACT ON THE ECONOMY, E.G. LIFTING BAN ON FROZEN MEAT,  
LOWERING SCHOOL FEES, AND REDUCING TARIFFS  
ON BASIC FOODSTUFFS LIKE RICE. HOWEVER, OTHER MEASURES  
SUCH AS INCREASING RATE OF GROWTH OF MONEY SUPPLY TO  
FINANCE DEVELOPMENT PLANS AND HENCE STIMULATE ECONOMY  
AWILL ONLFMMAINTAIR HIGH INFLATION RATE. FMG ABILITY  
TO EXERCISE THIS OPTION IS NOT ASSURED BECAUSE MOST  
DEVELOPMENT PROJECTS HAVE LARGE HARD CURRENCY COMPONENT.  
WITH PROJECTED FMG OIL REVENUES FOR 1978 ESTIMATED AT ONLY  
\$7 TO \$7.5 BILLION, FMG NEEDS ABOUT \$2.5 BILLION IN FOREIGN  
LOANS TO FINANCE TRUNCATED DEVELOPMENT PLAN. ADDITIONAL  
FOEIGN LOANS WILL BE DIFFICULT AND EXPENSIVE TO SECURE.  
ONLY OTHER OPTION IS FMG RUNNING DOWN ITS FOEIGN EXCHANGE  
RESERVES MORE QUICKLY, BUT THIS WOULD BE EMBARRASING TO  
FMG WHICH IS PUBLICLY COMMITTED TO KEEPING FOEIGN EXCHANGE  
OUTFLOWS TO MINIMUM. GIVEN SERIES OF UNPALATABLE ALTERNA-  
TIVES, IT IS LIKELY THAT FMG WILL DO AS LITTLE AS POSSIBLE.  
IF POLITICAL PRESSURES BECOME TOO GREAT, FMG PROBABLY WILL  
RESCIND OR MODIFY SOME OF ITS MORE POLITICALLY INEXPEDIENT  
AND ECONOMICALLY INCONSEQUENTIAL ACTIONS ESPECIALLY FOOD  
TARIFFS, IMPORT BANS AND INCREASE EDUCATION FAS. WHATEVER  
ACTION FMG TAKES, STATE OF THE ECONOMY WILL CONTINUE TO BE  
A MAJOR POLITICAL ISSUE THROUGH THIS YEAR AND PROBABLY THE NEXT.  
WYMAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INFLATION, WAGES, ECONOMIC CONDITIONS, ECONOMIC ESTIMATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978LAGOS05825  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780208-0314, D780198-0946  
**Format:** TEL  
**From:** LAGOS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780574/aaaacflh.tel  
**Line Count:** 198  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 295130a1-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION AF  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 LAGOS 5066  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 29 apr 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2737867  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EFFECT OF INFLATION IN NIGERIA  
**TAGS:** ECON, EFIN, ELAB, NI  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/295130a1-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014